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Summary:
This paper summarizes the major trends in state and Canadian provincial retail sales taxes in recent years. State sales tax rates have risen slowly; coverage has on the whole been reduced slightly as more states have exempted food and medicines. Sales tax revenue as a percentage of total state tax revenue rose slowly until 1971 and since had remained almost unchanged; revenues from state income taxes have exceeded sales tax revenues since 1973. In Canada, the trend has been toward sharply higher rates (reaching a maximum of 11%), but broader exemptions. Currently, the Canadian Federal government has induced the provinces (except Quebec) to lower their retail sales taxes in exchange for Federal grants to stimulate recovery and lessen cost-push inflationary pressures. The provinces have been moving slowly to increased adjustments in sales taxes for nonrevenue objectives, whereas the states have not. The sales taxes, despite the violent opposition in earlier years, are now generally accepted as permanent elements in the tax structures. They offer one great political advantage: the yield adjusts to inflation but does not overadjust, unlike the income tax. Unlike the property tax, tax liability does not jump sharply.

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Changes in State and Local Sales Taxation in the Last Decade

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Ratail sales taxation became established in the tax structures of roughly half of the states in the depression years of the thirties and was implanted in most of the remainder in the two decades following World War II. In this latter period as well, local sales taxes spread rapidly to become significant elements of the tax structures in about half the states. In the same general period, commencing in the thirties, retail sales taxation developed in the provinces of Canada. It is the purpose of this paper to review the major changes in state-local sales taxation in the United States and Canada in the last decade. The most significant general comment that can be made is that the field has not undergone dramatic changes--a characteristic also of tax structures of the states and provinces as a whole in this period.

The State Sales Taxes.

Since Vermont levied its sales tax in 1969, no other state has followed, thus leaving the figure at 45, or more correctly, 46, since sales taxation is important in Alaska at the municipal level, with rates comparable to those of the states.

The Hold-Outs--With the tax well established at the local level in Alaska and the state benefitting from oil revenues, it is not surprising that Alaska has not moved into the field. New Hampshire is in a sense easiest to explain: the state is notoriously anti-government activities, anti-tax. In many states conservatives tend to favor sales taxation; in New Hampshire the ultra reactionaries who control the state prefer no taxes even to sales taxes. It used to be hoped

that ultimately the state would join the rest of the United States; the fear, since proposition 13 passed in California, is that the rest of the country may join New Hampshire. In Delaware the prime moving force against a sales tax consists of the Wilmington retail community,which benefits greatly by selling to Maryland and Pennsylvania residents. In the past the state has been bailed out revenuewise by the corporate franchise tax but in recent years has been suffering increasingly serious financial problems. In Oregon, new taxes require approval of the voters, and the various sales tax proposals, largely to reduce the property tax, have been repeatedly voted down, partly because much of the property tax reduction would go to large business firms. In Montana, there appears to be no unique explanation. In all of these states, any effort to promote a sales tax in recent years encounters both the traditional objections to such levies and the current widespread anti-tax sentiment as well. Other taxes are higher than typical in several of the holdout states: income taxes in Delaware, both income and property taxes in Oregon.

<u>Revenue Importance</u>: The sales tax as a source of revenue (Table I) has crept up very slowly. After a jump from 24% of state tax revenue in 1960 to 30% in 1970, the figure reached 31% only in 1977. As a percentage of total personal income for the states as a whole, the revenue has risen from 1.65% in 1969 to 1.8% in 1975--hardly a dramatic change. An interesting development has been that state income taxes have outdistanced sales taxes; in 1973, for the first time, the combined yield of state personal and corporate income taxes exceeded the sales tax revenue. The cause, of course, is not drastic changes in income tax rates or exemptions--but simply the effect of rising incomes and inflation upon the yield of the income tax, with fixed dollar exemptions and brackets. Both income and sales taxes have risen at the expense of the specific rate levies--cigarette, alcoholic beverages, and motor fuel, which have fallen sharply, percentage wise, as the price level has risen and their rates have not changed to any extent.

The sales tax yield by state varies widely from a high of 55% in South Dakota to a low of 16% in Massachusetts (excluding the gross receipts and gross income taxes from the figures). One group of states concentrates very heavily--in excess of 40% of the total state tax revenue--on the levy, in addition to South Dakota: Mississippi (49%), Tennessee (48%), New Mexico (45%), and between 40 and 44%: Arizona, Connecticut, Florida, Utah, Washington, and Wyoming. Except for Arizona and Utah, these states do not have general income taxes or have ones of very limited scope. At the other extreme, nine states obtain less than 25% of their revenues from the sales tax: Massachusetts, Oklahoma (both under 20%), Minnesota, New York, North Carolina, Vermont, Virginia, West Virginia (retail sales tax), and Wisconsin. These states all have substantial income taxes, and the sales taxes either have low rates, limited coverage, or both.

Sales Tax Rates. As shown in Table II, there has been a steady but very slow upward trend in sales tax rates. In 1962, the great majority of the states used 3%; in 1971, 3% was still the most popular, (20), but there were 22 above and only 3 below. By 1978, there were almost as many 4s as 3s, with only one below 3% and 27 above. The maximum rate was 4% in 1962, 6% in 1971, 7% in 1978. But there are still only 3 in excess of 5%. In the 1971-78 period, 14 of the rates were increased (one by only.1 percent), but only 2 by as much as 2 percentage points. Two were decreased, but one by only .25% to make way for a similar increase in the local sales tax rate, the other (North Dakota) by 1. Thus the rate changes have been slow and not drastic. The Nebraska rate is adjusted automatically from year to year on the basis of revenue needs, but in a very narrow range.

Coverage--In the last decade, there has been little basic trend toward change in structure; such trend as there has been is toward slight broadening of exemptions, rather than broader coverage of the tax, as was occurring to some

TABLE 1
State Sales Taxes, June 30, 1978

State	State Sales Tax Rate (percent)	Maximum Local Sales Tax Rate (percent)	Combined State and Maximum Local Rate	Sales Tax Revenue as Percent of Total State Tax Revenue, 1977	Food Exemption
Alabama	4	3	7	32	
Arizona	4	2	6	42	
Arkansas	3	1	4	34	
California	4.75	1.75	6.5	34	x
Colorado	3	4	7	33	
Connecticut	7	--	7	40	x
Florida	4	--	4	43	x
Georgia	3	1	4	36	
Hawaii	4	--	4	28	
Idaho	3	--	3	28	
Illinois	4	1	5	35	
Indiana[1]	4	--	4	35	x
Iowa	3	--	3	27	
Kansas	3	.5	3.5	34	
Kentucky	5	--	5	36	x
Louisiana	3	3	6	28	x
Maine	5	--	5	36	x
Maryland	5	--	5	25	x
Massachusetts	5	--	5	16	x
Michigan	4	--	4	29	x
Minnesota	4	1	5	22	x
Mississippi	5	--	5	49	
Missouri	3.125	1.5	4.625	37	
Nebraska	3	1	4	33	
Nevada	3	.5	3.5	35	
New Jersey	5	--	5	29	x
New Mexico	3.75	.75	4.5	45	
New York	4	4	8	21	x
North Carolina	3	1	4	21	
North Dakota	3	--	3	37	x
Ohio	4	1.5	5.5	32	x
Oklahoma	2	2	4	18	
Pennsylvania	6	--	6	27	x
Rhode Island	6	--	6	32	x
South Carolina	4	--	4	35	
South Dakota	4[3]	2	6	55	
Tennessee	4.5	2.25	6.75	48	
Texas	4	1	5	36	x
Utah	4	1	5	43	
Vermont	3	--	3	23	x
Virginia	3	1	4	24	
Washington[1]	4.6	.8	5.4	43	x[2]
West Virginia[1]	3	--	3	21	
Wisconsin	4	--	4	24	x
Wyoming	3	1	4	41	
Alaska	--	5	5		
District of Columbia	5	--	5	21	x

[1] Excluding gross receipts or gross income tax.

[2] As of July 1, 1978.

[3] Becomes 5% July 1, 1979.

Source of revenue data: U.S. Bureau of the Census, State Tax Collections in 1977.
Revenue from separate taxes imposed in lieu of sales tax on sales of motor vehicles and hotel and meals has been added.

TABLE II

State Sales Tax Rates, Selected Years

	Number			
Rate,%	1938	1962	1971	1978
2	16	11	3	1
3	6	20	20	17
4	0	5	15	16
5	0	0	6	8
6	0	0	1	2
7	0	0	0	1

Fractional rates are grouped on the major fraction rule.

degree in the 1960s.

1. Food. In most sales tax states, proposals for exemption of food come up in every legislative session or before the voters, and since 1971 exemption has been granted in six additional states: Kentucky, Louisiana, Michigan, Indiana, North Dakota (which had exempted a few food items previously) and Washington. This exemption causes a substantial revenue loss (20 to 25%), adds to complications in operation and enforcement, and frees, unnecessarily, substantial expenditures of the middle and upper income groups, but it nevertheless has great political appeal. Thus as of July 1, 1978, 21 of the sales tax states exempt food (but not restaurant meals).

A decade ago, there was considerable spread of a superior alternative to food exemption: a credit against income tax (with cash rebate if the credit exceeded income tax liability) representing tax paid on minimum necessary purchases. But the spread has been relatively slow; while the procedure has great advantages over food exemption in terms of equity, protection of revenue, and operation of the tax, it has less political appeal. Three states abandoned the plan: Iowa, Michigan and Indiana, the last two shifting to food exemption instead. Hawaii, Colorado, Nebraska, and Utah use the system in lieu of food exemption, New Mexico, a much smaller credit in lieu of drug exemption. Two states, Massachusetts and Vermont, provide both the credit and food exemption, thus adding to complications unnecessarily. Idaho provides a credit but no cash refund for low income groups; Wyoming uses the system only for the elderly.

2. Drugs and Medicines. This exemption, which has particular justification because of uneven incidence of medical expenditures, is now provided (for prescription drugs) in all except 9 states, compared to all except 19 in 1971, and in several for all drugs.

3. Others. One additional state, Rhode Island (making a total of five)

has made the mistake of exempting clothing, making the tax more regressive.[1] Several states, most recently Maine and Minnesota, have exempted gas and electricity for home use. But adding exemptions has not been a common pattern.

4. Services. A decade ago, there was a move in a number of states to broaden the base by adding specified services. But the trend slackened. There were serious objections to general inclusion of services, still found only in Hawaii and New Mexico, and inclusion of a limited number adds little to revenue and does not make the tax more progressive.[2]

5. Industrial Machinery and Equipment. The sales taxes were presumably designed to reach final consumption expenditures, but as a result of the definition of retail sales used, certain purchases by business firms were brought within the scope of the taxes. Because many commodities may be used for either production or consumption use, inclusion of all nonconsumption purchases is almost inevitable under the retail sales tax. But this is not true of industrial machinery and equipment. But once it was brought within the scope of the tax, for political and revenue reasons exclusion is difficult. Typically the states that introduced the tax in early years tax these industrial items, while many of those that introduced the tax in a later period do not. There is also an important regional concentration; in general the industrial states, from Wisconsin and Indiana east to the seaboard, exclude the industrial items.

There has been a slight tendency to add the exemption and no tendency to eliminate it (except temporarily in New Jersey). New Jersey restored the

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[1] J.M. Schaefer, "Clothing Exemptions and Sales Tax Regressivity," American Economic Review, Vol. 59 (Sept. 1969), pp. 596-99.

[2] David Davies, "The Significance of Taxation of Services for the Pattern of Distribution of Tax Burden by Income Class," Proceedings of the National Tax Association for 1969, pp. 138-46. A similar conclusion was reached by E.O. Nelson, "Progressivity of the Ontario Retail Sales Tax," Canadian Tax Journal, vol. 18 (September-October 1971), pp. 411-15, using Canadian data.

exemption in 1977; Rhode Island and Connecticut phased in the exemption over a period of several years, fully effective in 1978. The Illinois legislature enacted a similar provision in 1978. Illinois has been the last major industrial state east of the Mississippi to tax machinery and equipment. The primary motive in these states making the change has been to aid industrial development in the state.

Use Tax--The basic use tax provisions remain unchanged, but the hands of the states were strengthened slightly in two cases.[1] In National Geographic, the Supreme Court upheld the right of California to require National Geographic to collect tax on its mail order sales of books and maps even though it had offices and employees in the state only for the purpose of soliciting advertising for the magazine. And in Complete Auto Transit, the court, in upholding the right of Mississippi to tax the trucking of new automobiles from a depot to which they were brought by rail in interstate commerce held that substance, not form (franchise vs. privilege tax), is the dominant consideration.

The state of Oklahoma took an unwise step in 1977 when it raised the use tax rate to 4%, leaving the sales tax rate at 2%, and tried to justify the difference on the grounds that most localities had 2% sales taxes. But the state Supreme Court not surprisingly held the rate to be unconstitutional, as not all local areas were covered by an equivalent tax.[2] Such legislative action could revive long-dormant Federal legislation restricting the powers of the states to tax interstate transactions.

Administration--A sample study by the author now underway suggests no drastic changes in state sales tax administration. A number of states have

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[1] J.F. Due, "Nexus for Use Taxes and National Geographic", National Tax Journal, Vol. 30 (June 1977), pp. 213-18.

[2] Phillips v. Oklahoma Tax Commission, March 14, 1978.

greatly modernized their computer operations for sales tax in recent years, with on line direct entry, direct access equipment. Others have not progressed at all in the field. The other change is a noticeable trend toward functionalization of state revenue departments, merging the various activities for each tax--enforcement, collection, audit, etc.--into single units. Thus the sales tax divisions either disappear or have only limited functions. This approach may increase overall efficiency in tax administration, but no longer is one person directly and solely responsible for functioning of the sales tax. In the process many states have integrated audit functions--but in fact sales tax audit tends to dominate, with a high degree of specialization of personnel.

Attitudes--The surveys conducted under ACIR auspices consistently show the sales taxes to rank far below the property tax and since 1973 the Federal income tax as the "worst" tax. In May of 1977, for example, 33% thought the property tax to be the worst tax (a sharp drop from the 45% of 1972), 28% the Federal income tax, and 17% the state sales taxes (only the state income taxes, of the major levies, fared better). Between 1972 and 1973 the percentage regarding the sales tax as the worst rose sharply--apparently merely because the property tax came to be regarded as less bad--but the figure has fallen since 1973. Dislike of the sales tax is greater in the northeastern states than in the rest of the country, despite the broader exemptions in these states. There is greater dislike of the tax in the higher income levels than in the lower, as would be expected--21% at the lowest, 14% at the top, as the worst tax.[1]

On the whole the state sales taxes work effectively, with surprisingly little complaint. Only the annual efforts to exempt food, and in some states, other goods, generate much controversy. The interstate complications continue ,

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[1] Advisory Commission on Intergovernmental Relations, Changing Public Attitudes on Governments and Taxes, Washington: 1977.

but are not too serious. Congress thus far, after 15 years of concern, has not enacted legislation affecting state taxation of interstate sales.

Local Sales Taxes.

Local government--primarily municipality and county--use of sales taxes has continued to spread, but not at the rapid rate of a decade or so ago. The latest state in which use is becoming widespread is Georgia. In ten states the tax is universal (California, Virginia), or almost so (Alaska, Illinois, Louisiana, New York, Tennessee, Texas, Utah, and Washington)--with over 90% of the population of the state covered by the tax. A total of 30 states authorize or permit local use of the tax; the taxes are in use in 29, but with only nominal use in two of these. In some states the rate permitted is set by state law; in other states there is substantial variation. Table I shows the maximum local rates and the combined state-local rates. The most typical local rate is 1, but the figure ranges up to 4 in Colorado and New York, and to 5 in Alaska. The combined state-local rate reaches 8% in New York City; 21 states have combined rates of 6% or higher.

The advantages of state administration of local taxes, uniformity of base of state and local levies, and liability resting upon location of the vendor are now generally recognized but not fully implemented. Of the states moving into the local field in later years only Minnesota allows local administration, but those states that started with local administration have had great political difficulty in moving fully from it--Alabama, Colorado, Louisiana, particularly. New York provides the worst example of diversity of base between state and local taxes.

The worst difficulty with local sales taxes is the widely varying ratio of taxable sales to population. Primarily residential communities receive little, while

some shopping center and industrial suburbs receive phenomenal amounts.[1] But despite this feature and some operational nuisance and potential loss of business, there is little pressure to eliminate the local levies or merge them into the state taxes.

The Canadian Provincial Retail Sales Taxes.

The provinces entered the sales tax field somewhat later than the states; only 2 provinces used the tax in 1940, and only one more by 1949, but in the subsequent decade and a half all of the other provinces adopted the tax except oil-rich Alberta. The taxes yielded 23 percent of total provincial tax revenue in 1977. Only Quebec shares the revenue with the local governments.

There are substantial differences in trends and present levies as compared to the states:

Rates. The provinces have continued to push up the rates, except for the temporary reduction in 1978 noted below; as Table 3 indicates, all of the provinces increased rates between 1963 and 1978, the figures having more than doubled in three provinces. As of early 1978, the top rate was 11%; five of the nine provinces had rates of 8% or higher--whereas in the United States this figure was reached only in New York City. There were two 7% rates and two 5% figures. There are no municipal sales taxes; the rates therefore should be compared with the United States state-local rates combined, but even so they are much higher. Rates as high as these are unthinkable in most states; the only other retail sales tax rate that exceeds Newfoundland's is the 20% figure of the Republic of Iceland. In addition, of course, the Canadian Federal government uses a 12% manufacturers sale tax.

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[1] Advisory Commission on Intergovernmental Relations, Local Revenue Diversification, (Washington: 1974), provides one of the best accounts.

Coverage. By contrast, the coverage tends to be less than in the United States, and there has been a steady tendency to increase exemptions. All provinces now exempt food. Meals, in excess of specified figures, are not only taxed but subject to higher than base rates in both Quebec and Ontario--whereas Saskatchewan and British Columbia do not tax meals at all--a policy that no state follows. Similarly, medicines are exempt in all provinces, as are books and goods subject to special excises. There is a much greater tendency to exempt clothing and footwear--children's clothing in all except two, all clothing and footwear in four, footwear in an additional one. Many common items of household use--soap, tooth brushes, etc.--are exempt in several. In general, each year provinces add exemptions and rarely remove any of them. One breeds another. Thus the taxes have ceased to be broad consumption levies, becoming more and more semi-luxury taxes.

Table 3

Sales Tax Rates, Canadian Provinces

Province	Sales Tax Rate			
	1965	1976	January 1978	July 1978
Newfoundland	5	10	11	8
Prince Edward Island	5	8	8	5
Nova Scotia	5	8	8	5
New Brunswick	3	8	8	5
Quebec	6	8	8	8
Ontario	3	7	7	4
Manitoba	-	5	5	2
Saskatchewan	4	5	5	3
Alberta	-	-	-	-
British Columbia	5	7	7	5

When the tax credit proposal to replace food exemption has been suggested, it has been rejected out of hand; the exemptions are far more popular. But despite these exemptions, a recent, but perhaps not very scientific,poll by Weekend Magazine in Toronto reported that the tax was the most unpopular of all Canadian taxes--particularly in the three largest provinces.[1]

The provinces have been slow to tax services other than utilities and hotel and motel service; only three including any beyond these, and then only a limited number.

The exclusion of production machinery has become more common: the maritime provinces, Quebec and Ontario (which has changed policy on this category several times) provide the exemption. Farm machinery is exempt in all provinces,unlike in the states.

Use for Non Revenue Objectives--Another basic difference has been the making of adjustments to accomplish nonrevenue objectives. For example, the provinces have moved in recent years to exempt insulating and heating equipment. Then, in 1978, Ontario and Quebec exempted hotel and motel accomodations from tax, as a deliberate move to encourage tourist travel.

A major shift in the direction of nonrevenue objectives occurred in 1978 as a result of combined Federal and provincial actions. In the April 1978 Federal budget, after consultation with the provinces, the Federal government announced that if the provinces would reduce their retail sales taxes for 6 to 9 months, the Federal government would compensate them for all or most of the revenue loss. The four Atlantic provinces could (and did) reduce their rates by 3 percentage points for 6 months and receive full compensation for the revenue loss. The other provinces will be reimbursed to the extent of 2 percentage points for six months, if they reduce their rates by

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[1] April 22, 1978, p. 3.

2 points for 9 months or 3 percentage points for six months. The offer does not affect Alberta, which has no sales tax. All of the provinces accepted the offer except Quebec, which, instead of lowering its rate, eliminated the tax from major categories of goods produced in the province--furniture, clothing, textiles and shoes (and hotels)--to stimulate sales of these products. The Federal government refused to accept this as an equivalent change, instead providing a cash rebate of Federal income tax paid by residents of Quebec. The relations between Quebec and the Federal government are strained because of the Quebec government's aim to secede from Canada.

The aim of the Federal action was to stimulate sales in a situation of continuing unemployment and to lessen cost-push inflationary pressures. The device of inducing the provinces to cut instead of reducing the Federal manufacturers sales tax reflected the belief that the cut in the retail taxes would immediately be reflected to the consumer, whereas a cut in the manufacturers tax would have less immediate effects and no effect if the firms did not reduce prices. A secondary goal of aiding small businesses was indicated.

With this change, in mid 1978, the rate is therefore 8 percent in Quebec and Newfoundland; 5 percent in the maritime provinces and British Columbia, 4 percent in Ontario, 3 percent in Saskatchewan, and 2 percent in Manitoba.

Experience Elsewhere.

The general trend throughout the world in the sales tax field is toward dominance of the value added tax, now used in most of Europe and South America and seriously considered in other countries. This form of sales tax offers major advantages over other forms in the environment of many countries of the world: basically the ability to gain the nondistorting advantages of the retail sales tax without concentrating the impact at the retail level--the one most difficult to tax in many countries. The audit trail provided by the tax

and the probable greater ease of excluding producers goods from the tax are further advantages. But for the states, as a replacement for the retail sales tax, the value added tax offers no advantages at all and major interstate complications. The retail tax is well enforced and is basically a simpler levy, at least in the eyes of the vendors.

The Michigan Single Business Tax. The one state to experiment with the value added tax--but not as a replacement for the sales tax--has been Michigan. The first use occurred between 1953 and 1967. The tax (Business Activities Tax) was imposed as a compromise between supporters and opponents of a state corporation income tax. It differed from the usual value added tax in two ways: firms calculated tax by ascertaining their value added by the addition method ; and depreciation was not included in value added. This first Michigan tax was repealed in 1967 because the introduction of a personal income tax made it necessary, politically, to levy a corporation income tax as well. Many small businesses opposed the tax because it was difficult to shift.

In 1975, however, Michigan reenacted the levy under the name of the Single Business Tax (since it replaced the corporate income tax and other special levies on business). The tax is imposed at a rate of 2.35 percent on a figure of value added calcualted by adding wages, business profits, and depreciation and then subtracting capital expenses eligible for depreciation. Smaller businesses are exempt, and there are limitations on the taxable figure designed to lessen the impact on labor intensive businesses. Special rules are provided for certain industries. There were two principal reasons for its reinstatement: the great instability of corporate income tax revenue, resulting in serious financial problems for the state, and an attempt to improve the "business climate" of the state. The tax was strongly opposed by those businesses that had a low rate

of profits relative to sales but strongly supported by large scale industry.[1] The levy is not a pure value added tax, but it has major value added features and is the only example in the world, so far as is known, of a value added tax involving the actual calculation of value added by the addition method rather than use of the tax credit method.

The Theory of Sales Taxation.

There has been relatively little theoretical analysis of incidence or analysis of distribution of burden of sales taxes by income group in the last decade. The major question raised relates to the long-accepted principle that sales tax rates should be uniform to avoid economic distortion and loss of economic welfare. A major contribution of the theory of optimal taxation of Diamond-Mirrlees and others is to deny this rule, pointing out that minimum loss of economic efficiency will result from a commodity tax structure with the rates on various goods inversely related to the elasticity of demand, with highest rates on those goods with the most inelastic demands. But this argument encounters several major objections. First is one of implementation; our knowledge of demand elasticities is not sufficiently great to allow even a first approximation to the desired results, especially in a general equilibrium situation. Secondly, this approach almost certaintly produces an unacceptable degree of regressivity. The uniformity rule is still acceptable--by default if nothing else.[2]

Conclusion.

Thus few dramatic changes have occurred in sales taxation at the state-local level in the United States: the tax remains a dominant and widely accepted

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[1] A good description of the present and previous Michigan levies is provided in the Advisory Commission on Intergovernmental Relations study, The Michigan Single Business Tax (Washington: March 1978).

[2] Recent work in the field seeks to meet these objections. Note for example A.B. Atkinson, "Optimal Taxation and the Direct versus Indirect Tax Controversy," Canadian Journal of Economics, Vol. 10 (Nov. 1977), pp. 590-606, and A. Deaton, "Equity, Efficiency, and the Structure of Indirect Taxation," Journal of Public Economics, Vol. 8 (Dec. 1977), pp. 299-312.

element in the state tax structures, with somewhat less acceptability at the local level. The only justification for local use compared to higher state rates is local financial autonomy. The Canadian counterparts have deviated more and more from the U.S. levies, and experience with them demonstrates on the one hand the tendency of exemptions to breed more and more exemptions, and the feasibility--though not necessarily the desirability--of using much higher rates than are typical in the United States. World experience of the last decade has demonstrated the advantages of the value added form of sales tax--but this offers little of significance for state and local finance in the United States and Canada, whatever significance it may have for federal sales taxation in the two countries.

The Canadian experiment with Federally-financed reductions in provincial sales tax rates, in lieu of reducing the Federal manufacturers sales tax, is an interesting experiment, the consequences of which may be difficult to measure.

Perhaps the most significant lesson to be learned from the experience with sales taxation in recent years is its adaptability, but not overadaption, to inflation and the avoidance of sharp increases in burden. With ad valorem rates, the yield keeps pace with inflation; the difference in behavior compared to the specific rate levies--given the unwillingness of legislatures to change the latter--is very marked. At the same time sales taxes do not produce the hostile reaction that inflation creates to income taxes with fixed exemptions and brackets--a reaction desirable from government revenue, anti-excess-demand-inflation constraint points of view but hardly palatable to the taxpayer. At the same time, the tax take rises slowly. Much of the reaction against the property tax and the enactment of Proposition 13 reflect the sudden extreme jumps in assessed values of property. Hopefully a lesson that has been learned by local governments from Proposition 13 is to avoid sudden increases in assessed evaluation of property, even if market values rise sharply.